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The JEWEL COMPANIES

ANNUAL REPORT 1965 JEWEL TEA CO., INC.

The JEWEL COMPANIES

To illustrate the individuality of the various businesses which make up the collective Jewel companies, the managements of each were asked to prepare their own pages for this Annual Report. They reflect the diversity of Jewel.

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Results in Brief

(All years include the net earnings of real estate affiliates and reflect the 3-for-2 stock split in July of 1965.)

	<i>Fiscal Year</i>			<i>% Increase 1965 Over 1964</i>
	<i>1965</i>	<i>1964</i>	<i>1963</i>	
<i>(Total dollars in thousands, except per share figures)</i>				
Sales:				
Food and related merchandise—retail.....	\$687,112	\$627,344	\$608,374	9.5%
General merchandise—retail.....	174,349	154,491	139,163	12.8
Wholesale sales.....	11,768	8,560	4,215	37.5
Total sales.....	873,229	790,395	751,752	10.5
Earnings Before Federal Income Taxes.....	26,293	23,991	22,452	9.6
Net Earnings for the Year.....	14,971	13,550	11,602	10.5
Per cent to total sales.....	1.7%	1.7%	1.5%	
Per cent to net worth.....	13.7	13.3	12.0	
Earned Per Share of Common Stock.....	\$2.42	\$2.19	\$1.88	10.5
Cash Dividends Per Share of Common Stock..	1.13	1.07	1.07	5.6
(Present annual rate \$1.20)				
New Property, Plant and Equipment (net)....	\$ 14,803	\$ 17,628	\$ 13,165	(16.0)
Funds Generated from Operations				
less Dividends Paid	19,338	17,183	15,252	12.5
<i>As of Jan. 29, 1966</i>				
<i>As of Jan. 30, 1965</i>				
<i>As of Feb. 1, 1964</i>				
Net Working Capital (<i>In thousands</i>).....	\$65,514	\$65,094	\$70,091	
Ratio of Current Assets to Current Liabilities.	2.0 to 1	2.0 to 1	2.3 to 1	
Operating Units:				
Supermarkets.....	327	324	334	
Home Service Routes.....	2,141	2,103	2,031	
Retail Drug Stores & Departments.....	86	74	53	
Self-Service Department Stores.....	9	10	9	
Candy—Ice Cream—Bakery				
—Luncheon Shops	73	66	61	
Stockholders.....	11,706	11,665	12,236	
Common Shares Outstanding.....	6,109,796	6,104,854	6,081,451	
Preferred Shares Outstanding	47,637	49,127	50,947	
Full-Time Employees.....	15,728	14,456	14,271	

MANAGEMENT'S REPORT

Jewel's Most Rewarding Year



The year 1965 was the most rewarding since our Company's founding in 1899. We are pleased to report record sales, record earnings and record progress by our people. Some of these accomplishments are shown on the preceding page. Of course, numbers are an appropriate method of score-keeping for any business, but we feel that the essence of Jewel's strength is its basic philosophy, supported by the dedication and effective organization of its people, and the efficient employment of its financial resources.

JEWEL'S PHILOSOPHY

It is Jewel's philosophy to serve ever-changing family needs and desires with as wide a range of consumer merchandise and services as we can develop the capacity to provide. We know that by serving well we create personal and economic satisfactions which are rewarding to our customers and, in turn, to us. Our long-standing objective . . . to make Jewel A Better Place To Trade and A Better Place To Work . . . is no less a goal today than when it was first adopted many years ago, even though the breadth of our market coverage in terms of product lines, services and territory is changing dramatically.

LIVING UP TO THIS PHILOSOPHY

The ways in which we measure up to this philosophy are pertinent because they help to explain our sales and profit successes of 1965, and our optimism for 1966. Accordingly, we highlight four principles which guide us in implementing Jewel's basic philosophy.

1. A strong orientation to the "people" side of business.

Jewel's human resources have been developed over the years as a result of deliberately sharing the responsibilities, the financial rewards, and the inner satisfactions of progress with everyone in our Company. In the final analysis, this "sharing of a business" has helped us preserve the spirit and dedication of each individual as a partner in our business, in addition to providing the future and the security that most readily come from belonging to a progressive and growing publicly-owned enterprise. Jewel's success also depends on the attraction and development of highly-talented people. Although many operating procedures differ between the several Jewel companies, we have a Jewel-wide management dedication to the development of people at all levels of each operating company and for all functions of corporate management. We have increasing confidence in Jewel's progress in the 1970's as we observe the personal development of present Jewel people, and as we assess the calibre and enthusiasm of those who are entering our various companies currently.

GEORGE L. CLEMENTS

DONALD S. PERKINS

FRANKLIN J. LUNDING

2. Merchandising decisions as unrestricted as family needs and desires.

The continually growing importance of general merchandise to our sales and profit illustrates a determination to keep in step with the changing and growing needs and desires of our customers. As we have developed more profitable ways to integrate food and general merchandise, we are planning for the future, not only as a food or supermarket chain, but as retailers of a very broad range of consumer goods and services. Though our greatest growth has come from our self-service businesses, we continue to revamp our merchandise lines, and to remain flexible enough to serve profitably those customers who enjoy shopping at home. (The Home Service Routes enjoyed record sales of \$85,391,000 in 1965.)

3. A style of management that stimulates initiative and creativity.

As we add strong and well-accepted regional retailers to the family of Jewel companies we have retained the identity, strengths, personality and key management of each. Each Jewel company develops those plans, programs and operating methods which best meet its own market conditions. Ordinarily, each retains its own officers and management committees, its own profit-sharing programs, and makes its own real estate decisions. Each company is challenged to build upon its own strengths through individual initiative, development of people, and an exchange of ideas with other Jewel companies. It can call on corporate help, counsel and information, but it makes its own operating decisions. Our corporate organization has been kept purposely small, offering the best specialists we can find to serve as a captive consulting organization, rather than as a command post. Corporate management provides the climate for independent initiative, reviews plans and financial needs and audits management development activity to assure the building of successor management talent. The benefits of gathering together successful companies in different retail businesses and from different geographical regions is having a wholesome effect on both old and new operations. It stimulates a competition for excellence and growth within our various companies that results in progress and profits greater in total than the sum of its individual parts.

4. A quality reputation in every market we serve.

We do not try to be all things to all people. Originally, by inheritance, and currently by design, we are striving to maintain and build our reputation as the quality mass retailer in each of our businesses and geographical markets. The value and satisfaction a customer derives from shopping with one of the Jewel companies

accrues from the combination of price, service and the quality we seek to offer. The consumer's interest in the unusual in quality and service seems to us to continue to be on the increase and we are designing our stores, choosing our merchandise, and training our people accordingly.

THE CHANGED JEWEL

Jewel originated in 1899 as a direct-selling business and began food store operations in 1932. As late as 1956, the Jewel Tea Co., Inc. was a successful Chicago food chain and nationwide Home Service Route business. Today, ten years later, Jewel is a group of retail companies, providing an ever-growing range of consumer goods and services and operating in an increasing number of regional areas under different names, each with an outstanding reputation in the market it serves. Because we are not a substantial marketer of tea and because we have grown to be an association of many businesses, we are asking for stockholder approval to change our corporate name to Jewel Companies, Inc. In the pages which follow, each of the Jewel companies presents an individual report to stockholders in order to familiarize them with its own personality. In addition, you will find company-wide reports on Research and Development, our Real Estate Corporations, and our Manufacturing activities.

THE 1966 OUTLOOK

In 1966, we look forward to record sales and barring external handicaps we also anticipate record profits. Capital expenditures will approximate \$20,000,000 in 1966, however, no new corporate financing is contemplated. We express our thanks to every individual whose accomplishments in 1965 are documented in this report, and whose dedication to excellence gives us the courage to face the coming year with such optimism. We also express our deep appreciation to our stockholders for their interest and support.



GEORGE L. CLEMENTS
Chairman of the Board



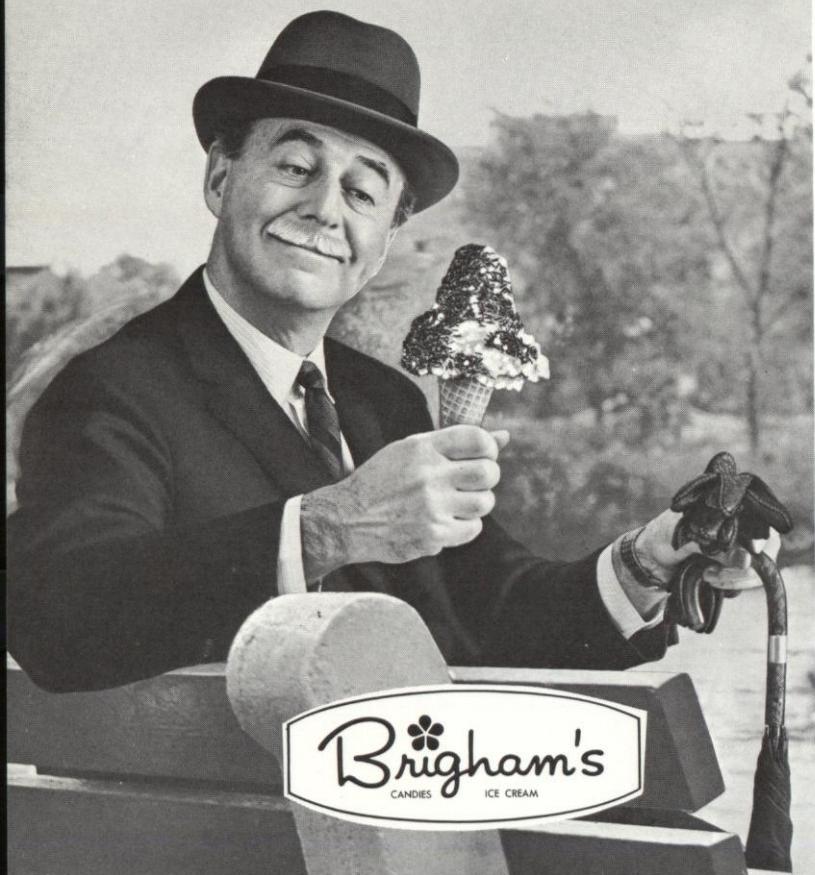
DONALD S. PERKINS
President



FRANKLIN J. LUNDING
Chairman, Finance Committee



What's Proper with all BOSTONIANS?



Brigham's blossomed out in 1965 with a new corporate symbol that represents more than a graphic design change; it symbolizes a fresh vital approach to the future.

For nearly forty years, to Bostonians old and young, Brigham's has meant delicious, high-quality "fun foods," friendly sales people, and clean, pleasant shops.

This tradition is vitally alive and growing in the rapidly expanding Brigham's of today, where major emphasis is placed on training to insure uniformity in quality of service.

1965 was a year of personal growth for Brigham's people. For the first time, all managers were eligible to earn Partnership Profits, and Brigham's people participated in Profit Sharing. Opportunities for advancement were presented to store managers through nine new store openings and the promotion of five managers to positions of greater responsibility. The most exciting of the new stores added in 1965 is in Harvard Square, which has a service delicatessen, rotisserie and pie bake-off operation.

The experience of 1965 in new product lines, new kinds of locations and new store opening methods has given a fresh outlook to the future.

In 1966 fifteen new stores will be added in New England, and we also plan to introduce the Brigham's concept to Chicago. The one constant element which will characterize every aspect of Brigham's operation will be the maintenance of standards of excellence in quality, service and cleanliness for which Brigham's new symbol stands.

John M. Mugar
President

Kingston L. Howard
Vice President &
General Manager

	1965	Plan 1966
Stores—beginning of year	66	73
New stores added	9	20
Old stores closed	2	—
Stores—end of year	73	93
Store area (average square feet)	1,750	
(range—square feet)	575-4,100	
Area served: Boston Metropolitan Area		



Brigham's new symbol blossoms on the front of a new downtown shop opposite Boston Common.

FOUNDED 1898



Eisner Stores... Retailer and Wholesaler in the Land of Lincoln



The thirty Eisner Food Stores and their thirty-eight affiliated franchise outlets are unusual in the supermarket industry inasmuch as they serve the major metropolitan cities of central Illinois and Indiana, as well as numerous rural towns and villages. Though sophisticated in its marketing operations, Eisner has retained a hometown businessman's image through its advertising, management, and the store staffs' participation in each of its communities' activities.

Since the merger in 1957 of the Eisner family's interest with Jewel, the Division has upgraded its stores, consolidating the original forty-three stores, many of which dated back to pre-war days, into thirty modern supermarkets serving the six larger downstate cities with multiple stores in each, and nine other smaller cities with single stores. The corporate stores have maintained the number one position in each of their markets and have a reputation for high-quality meats, produce, and fine fresh pastry products.

The Eisner management has concluded that only a few corporate stores could be added in the near future in central Illinois because of lack of population density. However, there is a need in many small communities for quality food stores with local personality. Eisner is now franchising independent store

owners as Eisner affiliate stores serviced from the Eisner distribution center. Movement of product to the affiliate stores from the Champaign facility now accounts for approximately 19% of total volume.

In 1965, an institutional food supply operation to serve restaurants, schools, etc. was introduced in the Eisner Division. This development shows signs of excellent growth potential.

Jo H. Armstrong
Vice President &
General Manager

	1965	Plan 1966
Corporate stores	30	32
Affiliate stores	38	43
Corporate store area (average square feet)	14,235	
(range—square feet)	8,500-20,000	
Area served: Central Illinois and Western Indiana		



FOUNDED 1932

Jewel Food Stores...

An Improved Concept for Serving Ever-Changing Family Needs

To the customers of Chicagoland's Jewel Food Stores, 1966 will mark the coming of age of the "Master Markets"—truly modern stores diversified within their four walls and designed to answer more completely than ever the diverse needs of individual homemakers. This concept also sets the stage for a new period of growth for Jewel.

GROWING BY EXCELLING

Growth is vital to our future and the growth we see is a vibrant sort of growing from within, which comes from a desire to excel in serving customers—store by store and neighborhood by neighborhood.

This concept depends on each individual Jewel Store and Jewel Team excelling in ingenuity, service, cleanliness, quality, variety and freshness—as compared to the competing stores in the immediate neighborhood.

MANY STORES IN ONE

A Jewel-Osco Master Market is a combination of many shops—a Butcher Shop, Pastry Shop, Sausage Shop, Candy Shop, Cooked Food Kitchen, Produce Market, Chef Cut Shop, Beauty Corner Cosmetic Shop, Camera Shop, Apothecary Shop—and in some —Liquor and Snack Shops. These innovations are in tune with continuing research which has been following the changing desires of customers.

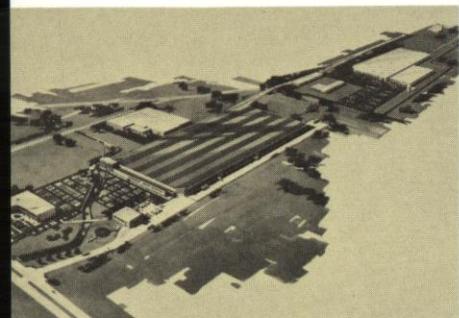
KEEPING IN TUNE WITH THE CUSTOMER

Today's customer wants the efficiency and speed of self-service most of the time, but she needs help, service and individualized attention for many purchases, such as meat, pastry and cosmetics. While she enjoys the gourmet cooking that Chef Cut Meats make possible, there are times when she appreciates the time and work saving that prepared foods provide for her. Not only does the Jewel Master Market combine these and many other features for her to choose from on any shopping trip she makes; it also provides a place which can answer enough of her different needs to become the store she chooses for more of the frequent shopping trips of many kinds that she makes during a week's time.

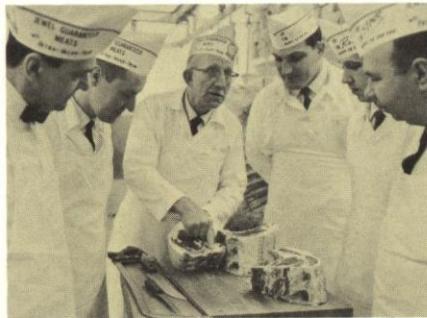
A FIRM BASIS FOR BUILDING SALES

By answering these needs, we believe there exists a tremendous opportunity to build more customer traffic and sales in existing locations. Already, customer acceptance for the 60 departmentalized Jewel Master Markets shows us that total sales can be built dramatically by building new Master Markets throughout the Chicagoland area. To ensure continued acceptance, we must be certain that the three basic factors necessary for a successful retail operation be "built into" each Master Market.

The first is a good location. These stores must have thousands of homes to serve—they require ample



***GIGANTIC DISTRIBUTION COMPLEX** came together in 1965. Bakery, Grocery, Perishables, Transportation facilities and Offices now claim Melrose Park as home.*



***TRAINING PROGRAMS** assure consistent adherence to Jewel policies—as in this meat cutter apprentice class.*



***PAstry SHOP** features Chicago's widest selection of fine quality cakes, breads, cookies and rolls. Offers special decorated cakes, too.*





space and accessibility to perform the job. The second is a reputation for good value, integrity, and consistent quality.

Such a reputation now belongs to Jewel because of the efforts of the third and probably most important requisite—fine people to operate the stores and provide the public with pleasant shopping experiences.

TALKING TO THE CUSTOMER

Communications—which in our business involves talking directly with our customers—must also reflect the uniqueness of the Master Markets. Jewel advertising and in-store promotions are already beginning to show the impact of the "shop" concept.

These same communicating techniques—which have helped in the past to build Jewel's reputation for excellent meat, freshness of perishables, confidence in guaranteed satisfaction and fair dealing—and which created a personality of friendly interest from helpful people—through genuine Red Carpet Service which shows sincere effort to understand the problems of the homemaker and offer help in solving them—will now lead the way in telling of this new kind of shopping for the Chicagoland homemaker.

WE HAVE THE TEAM TO DO THE JOB

A restructured store supervisory organization is now keyed to supporting the Store Manager of each Master Market in his job as co-ordinator of the many

self-sufficient departments or shops within his store. An even stronger emphasis will be placed on perishables, for it is here that even more care must be given to maintain Jewel's image of quality—and it is in Perishable Merchandising that the uniqueness of the shop concept flourishes. Separate supervisory assistance is thus being made available for Pastry, Produce, Meat, Sausage, Prepared Foods, as well as Grocery, and Non-Foods.

There is a distinct feeling of excitement today in the Jewel Food Stores organization which reaches into every area of our endeavor.

Howard R. Rasmussen

Executive Vice President,
Chicagoland Stores

Harry G. Beckner

Vice President and
General Manager,
Jewel Food Stores

	Plan	1965	1966
Stores—beginning of year	254	257	
New stores added	10	13	
Old stores closed	7	7	
Stores—end of year	257	263	
Store area (average square feet)	13,749		
(range—square feet)	2,700—29,800		
Area served: Greater Chicago Metropolitan Area, including Southwestern Michigan, Southeastern Wisconsin and Northwestern Indiana			



SAUSAGE SHOP offers wide variety of products with Old World flavor and individual service.



PRODUCE MARKET in every Jewel Store receives daily delivery of fresh fruits and vegetables.





FOUNDED 1899

To help describe the philosophy under which Jewel's Home Shopping Service operated, here is what we ask our people to bring to their jobs each day: strength of character so that we build on principles, not expediency; inner tranquility so that we keep our heads when the going gets rough; a constructive restlessness; a sense of right and wrong so that work standards and personal behavior do justice to the trust customers place in us; a willingness to share the work load, opportunities, and rewards so that each man might grow; respect for the other person's pride and dignity and

that of his family. Finally, we ask that they have fun and bring to work a sense of adventure and of curiosity. That our people understand their heritage and give this philosophy real meaning is reflected by our continued customer acceptance. We are proud to be the grandfather of the Jewel companies, yet we believe that most of our opportunities are still ahead of us. Thus, 1966 will be a year of search for new ways to serve more customers in still better fashion. And we expect it to be another banner year for both sales and earnings.

1965-Our Forty-fifth Consecutive Year of Profitability



A diary of 1965 highlights might serve to illustrate what we regard as the spirit of the business; its vigor and restlessness; its concentration on people; its efforts to keep in step with customers' wants.

FEBRUARY. Management people visited college campuses, recruiting graduates and 250 under-graduates for our summer program.

MARCH. Two veterans in our Barrington Plant—Chester Rice and Louis Pankonin—were honored on their 35-year anniversaries. Their memories go back to a year when Jewel's total sales were 15 million dollars.

MAY. First Frank P. Ross Scholarship, established in honor of one of Jewel's founders, was awarded to Miss Susan Heidtman whose father is an Assistant Manager in our Florida district.

JUNE. Flash flood wiped out Denver warehouse and office. Everybody pitched in to provide uninterrupted service to customers in Colorado.

JULY. Customers received new Fall-Winter catalog—the biggest ever. (Final figures showed a 14% sales increase over prior year's catalog telling us to continue our plans to increase its size.)

AUGUST. Representing 113 schools, our young college men who finished their sum-

mer's work as Jewel salesmen got together in various parts of the country for informal outings to exchange experiences and learn more about Jewel. Fifteen outstanding men were granted scholarships.

SEPTEMBER. First truck with new colors put in service. The old brown truck on its way out, replaced by two shades of green and fresh lettering.

OCTOBER. Blanket sales exceeded all records—delivered 175,000 blankets into customers' homes in two weeks.

NOVEMBER. New field management organization, including promotions of the youngest man (25) ever to be made Division Manager and three District Managers ranging in age from 24 to 27. (We're proud, too, that young talent is well balanced with men of greater experience.)

DECEMBER. The best Christmas Season in history. Christmas catalog sales increased 21%.

JANUARY. Kicked off the new year with spring fashions. Total dress sales were \$1,250,000 in two weeks, far exceeding any prior experience.

Announced plans for building new mail-order facilities to handle growing catalog volume.

Weston R. Christopherson
Vice President & General Manager

	1965	Plan 1966
Routes—beginning of year	2,103	2,141
Routes added	66	5
Routes closed	28	5
Routes—end of year	2,141	2,141
Customers per week	500,000	
Area served: 43 States		



OSCO

Drug

1937: Founded with a store in Rochester, Minnesota.
1961: Became a Jewel company with 31 stores in 6 states.
1962: First Chicago Osco Drug store opened.
1965: Eighty-five stores with the Osco name—43 in Chicago, 42 throughout Illinois, Iowa, Indiana, Wisconsin, Minnesota, North Dakota, South Dakota.

We are proud of 1965's accomplishments which include record sales and earnings. Osco is growing both as a highly decentralized system of individual profit centers in cities throughout the middle states and as a partner of Jewel Food Stores in the Chicago market. Whether in daily operations or in dramatic growth, our people are guided by a down-to-earth philosophy, and we can think of no better way to describe this business than to quote from letters written to store managers over the years by Paul Stratton, former President, and now Board Chairman of Osco Drug, Inc.

"Every once in a while each Store Manager should put on his hat, walk around the block and then come back to his store with his eyes and mind adjusted to the viewpoint of a customer. If you will do this honestly and with an open mind, you will probably see plenty of things wrong."

"NOW is always an ideal time to cash in on the practice of giving extra courteous treatment to all customers."

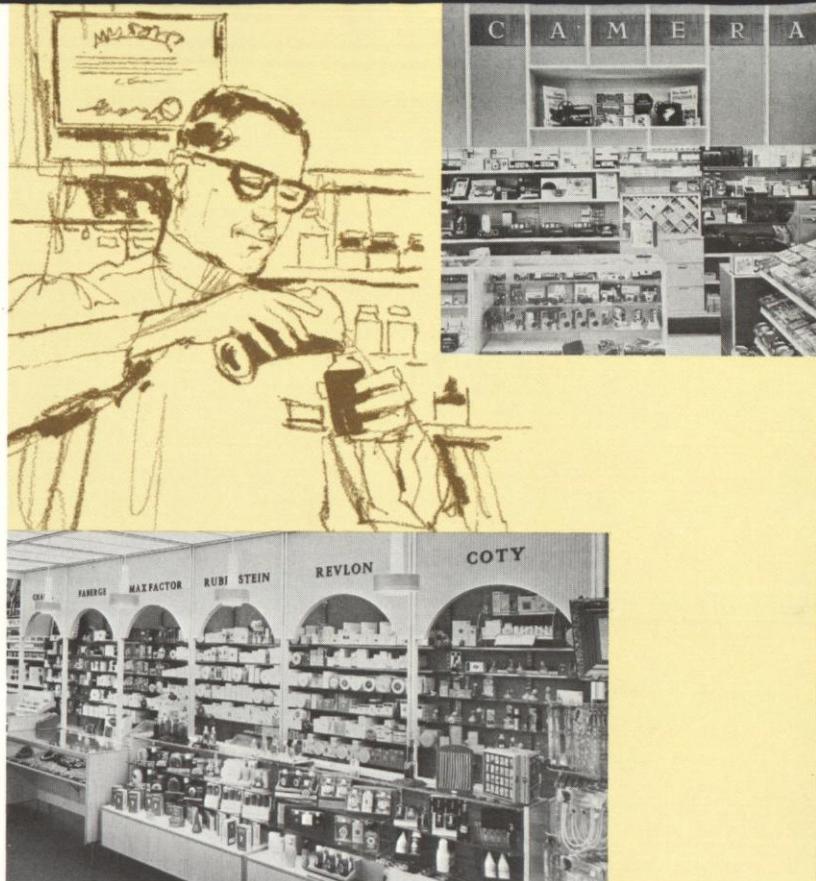
"We must keep in mind that our business was built upon a platform of big sales, low overhead, modest profit, meeting or beating all competition, and determination to offer customers what they want, when they want it, and at prices they are willing to pay. Along with this, of course, goes tight control of expenses, a terrific amount of hard work, a reasonable amount of horse sense and a fine degree of judgment in keeping the whole ship on an even keel."

"In looking for symptoms of what may cause trouble, we must recognize symptoms of 'Profititis.' This is a disease that makes little stores out of big stores, and by reverse English, keeps little stores from growing into big stores. We will not continue to grow unless we make sure that our every-day prices are right *EVERY DAY*."

"The customer on whom we must depend for the long pull is the person who thinks of Osco Drug as HER store, and knows she will be given the same royal welcome every time she comes in whether her purchase is a tube of toothpaste or a vacuum cleaner."

"Your job as a Store Manager includes carrying your share of the community load."

Out of such customer-oriented philosophy has grown a business providing communities with products and services for better daily living, a business whose personality can be described only in terms of many small parts—appealingly warm store designs, a wide variety of quality merchandise and attractive displays, modern pharmacies, cosmetic centers stocked with



wide lines of prestige brands, low prices, and friendly, local advertising. But above all, the Osco personality is people—managers whose dedication extends to their communities, pharmacists whose professional attitude says "we care," expert cosmeticians, friendly checkers, courteous and helpful clerks, and stock-room men whose first concern is the customer.

Weston R. Christopherson
Executive Vice President &
General Manager
Osco Drug, Inc.

L. J. Skyles
Vice President &
General Manager
Chicago Osco

	Plan	
	1965	1966
OSCO DRUG, INC.		
Stores—beginning of year	38	42
New stores opened	5	10
Old stores closed	1	—
Stores—end of year	42	52
Prescriptions filled—1965	1,034,000	
Store area (average square feet)	6,700	
(range—square feet)	2,300—20,000	
Area served: Illinois, Indiana, Iowa, Minnesota, North & South Dakota and Wisconsin		

	Plan	
	1965	1966
CHICAGO OSCO DRUG STORES*		
Stores—beginning of year	35	43
New stores opened	8	15
Stores—end of year	43	58
Prescriptions filled—1965	417,000	
Store area (average square feet)	6,110	
(range—square feet)	3,000—9,600	
Area served: Greater Chicago Metropolitan Area		
*including departments in Jewel supermarkets		

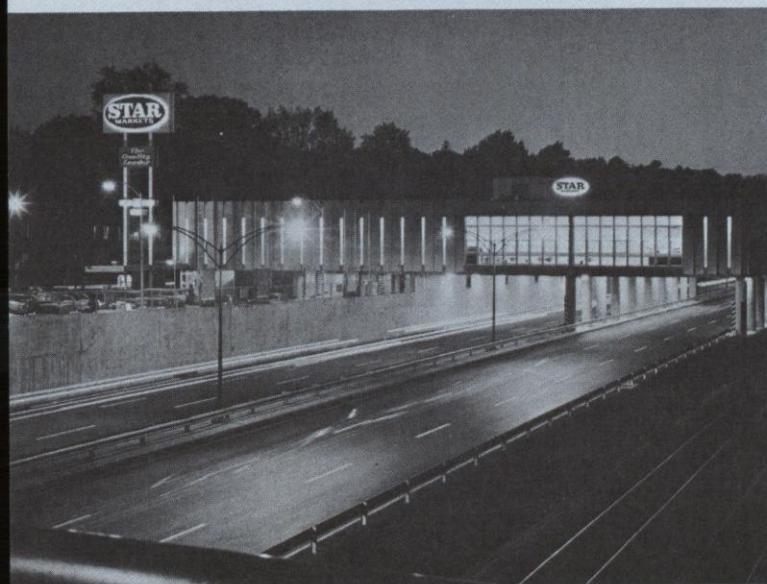
The Star Story



FOUNDED 1915



In New England, Star is a recognized leader in fresh seafood.



Unique! The Newtonville, Massachusetts Star Market, opened in 1963, spans the Massachusetts Turnpike.

The Star Market philosophy is to run stores of excellence—and to do a large volume of business per store. To this end, Star has constantly stressed the need for continuing emphasis on the individual store.

That Star has achieved its objective over the years is evidenced by its high per store sales average—the highest in the East—and its constant leadership in customer count.

Star Markets are generally the largest stores in their respective areas. They're planned expressly to handle more sales. Store layout, fixtures and shopping conveniences are designed for this bigger traffic. Star Markets have more departments, more variety and more services to attract more customers. Extra departments like fresh seafoods, cooked foods, delicatessen, and florist shops add to Star's image as a complete food headquarters. And Star customers travel greater distances to shop at a Star.

As Star grows—this higher-per-store-sales philosophy does not diminish. Star continues to maintain a record of achievement as 1965 results produced another year of record sales and earnings.

One single development of 1965 has been most significant in our current volume and profit trends. In August, competition in the Boston area was increased as some operators made dramatic moves to build a low-price image. Star accepted this challenge by lowering prices, accelerating its promotional and stamp activity, and emphasizing continued excellence in service. We are pleased to report that this challenge is being met successfully and that our share of the market has improved in this highly competitive climate. Our plans for 1966 include the opening of 7 new Star Markets and the beginning of the construction of our new Warehousing and Processing facility.

John M. Mugar
President

	1965	Plan 1966
Stores—beginning of year	36	37
New stores added	2	7
Old stores closed	1	—
Stores—end of year	37	44
Store area (average square feet)	23,200	
(range—square feet)	7,600-36,000	
Area served:	Eastern Massachusetts, Rhode Island, Southern New Hampshire and Maine	



*Mrs. Laura McCann,
"International Checker
of the Year." She
exemplifies the smiling,
friendly service which
people find at Star
Markets.*



Turn-Style's Year of Progress

Turn-Style Family Centers, our effort to combine a wide range of food and general merchandise in one neighborhood store, gave clear signs of "coming of age" during 1965. It has been a business of change, development, and improvement. It now shows signs of being a business of growth, thanks to the considerable progress made by Turn-Style people in 1965.

WHAT IS TURN-STYLE DESIGNED TO BE?

Turn-Style Family Centers are large stores intended to provide complete self-service family shopping in a neighborhood center. Of course, there is a large and complete food store. The general merchandise lines range from cameras to children's clothing, from women's fashions to auto accessories, from garden supplies to cosmetics. Where possible, there is a pharmacy and a snack shop. Perhaps more important than the merchandise lines themselves are the goals we have set for Turn-Style. While recognizing the success of discount houses, we have chosen not to use the term "discount" in connection with Turn-Style. Instead, we have worked to develop a special meaning for Turn-Style by offering the promotional pricing and self-service of the discounter, combined with a high quality standard for merchandise, cleanliness and service. We are building a Turn-Style reputation using the same operating methods and customer awareness that have given meaning to Jewel, Star and Osko.

WHAT WAS ACCOMPLISHED IN TURN-STYLE IN 1965?

IN THE MIDWEST: Sales were up 10% in the 5 stores which had identical facilities for 1964 and 1965. But even more important, Turn-Style management re-styled its organization to provide improved customer service, greater ingenuity in advertising and promotion, and greater attention to the control of inventories and expense. The key man in the new organization is the Departmental Sales Manager who is responsible for merchandising and operating the same specialty departments in each of the stores. We are gratified to report that Turn-Style West has reached a state of profitability in 1965 that has encouraged us to look for new Turn-Style locations in the Chicago area.

WHAT DOES THE FUTURE HOLD FOR TURN-STYLE?

IN THE MIDWEST: We are planning growth in two phases: (1) Expansion in 1967 in the Chicago metropolitan area with stores similar to the two successful Chicago stores now in operation. Additional stores will be built in easily accessible locations serving a concentration of growing families; (2) Subsequent development in new markets, particularly in locations that can become focal points outside the downtown area for family shopping. These new markets will be found in cities similar to our present successful locations in Davenport, Iowa; Racine, Wis. and Moline, Ill.

D. L. Lewis
Vice President & General Manager
Turn-Style West



FOUNDED 1957



	1965	Plan 1966
Stores—beginning of year	10	9
Old stores closed	1	—
Stores—end of year	9	9
Store area (non-food) (average square feet)	84,200	
(range—square feet)	50,000-108,500	
Area served: Eastern Massachusetts and Midwest		

IN THE EAST: Operating standards were raised, quality levels were improved and an outmoded store (the original Turn-Style) was closed. Management talent from the Star organization helped to make the 4 Turn-Style stores in the Boston area more attractive stores in which to shop. The addition of private label merchandise and the up-grading of quality lines improved the values we are offering customers. Important to Turn-Style East progress in 1965 was the elimination of leased departments in lines where we have built our greatest sales and profit results in our midwest stores. 1965 was clearly a year of transition for Turn-Style in Boston.

IN THE EAST: Increased emphasis on "hard goods"—sporting goods, hardware, appliance and especially drug and variety departments—will be possible in 1966 because former leased departments are now Turn-Style operated. Promotional planning in Boston and coordination with our Midwest stores will be facilitated. To support emphasis on the individual store departments, plans are already under way to adopt the specialized department management technique which has proved so successful in the Midwest.

Jack Genser
General Manager
Turn-Style East



SUPERMARCHÉS

FOUNDED 1960

In 1960, when Jewel Tea Co., Inc. and Grand Bazar of Antwerp (department store chain) subscribed to the capital of a new company, Supermarchés GB, 80% of food retailing was through small individual shops with a limited and specialized assortment.

At the end of 1965, Supermarchés GB operated 27 of the 150 supermarkets in Belgium: their stores are modern, laid out as Jewel Food Stores, i.e., combining under one roof all daily food needs.

1. The large variety of foods is composed of 5,000 different items: groceries, meat, poultry, fish, produce, dairy, luncheon meats, frozen foods. A non-food section offers a selection of general merchandise ranging from 1,000 to 5,000 items.
2. Constant efforts are devoted to quality control and improvement. A central check of incoming goods is done at the warehouse level where all grocery and perishable merchandise is delivered by the suppliers.

Private label items (GB or Super GB) are promoted in the stores. They represent 25% of grocery sales and they are considered "Money-Savers" by customers. They are sold at lower prices than national brands of similar quality.

3. The majority of our stores are located in residential suburbs and have adjacent parking lots. Fifty per cent of customers are now shopping by automobile.
4. All stores are open every day from 9 a.m. to 9 p.m., except Sunday, and 35% of the sales are made between 6 p.m. and 9 p.m.

Jacques Dopchie

General Manager

Supermarchés GB and Super Bazars

	Plan 1965	1966
Stores—beginning of year	24	27
New stores added	3	4
Stores—end of year	27	31

Customers per week	280,000
Store area (average square feet)	15,000
(range—square feet)	9,500—28,650

Area served: Principal cities and suburbs in Belgium.

SUPER Bazars s. a.

FOUNDED 1961

In 1961 Jewel, with 3 Belgian department store companies, subscribed to equal shares in the capital of a new company, Super Bazars, whose goal is to operate the type of stores known in the U.S.A. as self-service discount department stores.

At the end of 1965, Super Bazars operated 5 shopping centers, composed of:

1. A general merchandise store and a complete supermarket (operated by Supermarchés GB), with a common check-out area, and ranging in size up to 80,000 square feet of selling area.
2. A self-service restaurant of 100 to 150 seats.
3. Small convenience shops (bank, cleaner, hairdresser, florist, etc.).
4. A parking lot for 900 cars in the largest unit.

Sales have shown an annual increase of 20% per store during each of the last 3 years. Opening hours are from 9 a.m. to 9 p.m. every weekday: 38% of sales are realized from 6 p.m. to 9 p.m.

Super Bazars will expand with 5 more units over the next 2 years.

These centers will be larger and in addition include:

- A home center consisting of a separate store for furniture and appliances.
- An auto center, at the entrance of the parking lot, which will combine an automobile accessories store and bays for installing parts, batteries and tires.

	Plan 1965	1966
Stores—beginning of year	5	5
New stores added	—	2
Stores—end of year	5	7
Customers per week	80,000	
Store area (including food) (average square feet)	75,000	
(range—square feet)	36,000—120,000	
Area served: Brussels, Liège, Bruges, Antwerp, and suburbs, Belgium.		

S.I.A.S.

Società Italo Americana Supermarkets S.p.A.

Jewel went into business in Italy through the assumption of Star Market's interest in S.I.A.S.—Società Italo Americana Supermarkets—doing business under the name of "STELLA," the Italian equivalent of Star. This experiment in the Italian market resulted in the opening of four STELLA Supermarkets with an additional number planned for opening in 1966. The supermarket growth in Italy has been much slower than in most of Europe, although Italian supermarkets, which now number 240, are by and large very well received and have done much to improve the accessibility, service and the quality of food products available to the housewife.

Italy's food products, not unlike its famous dishes, are very regional in nature. The advent of the supermarket has served to introduce many new products which were formerly known on a regional level or often only citywide. Evidence of this is found in many products such as "Brescianella cheese," a product of the province of Brescia, which has been introduced for the first time in Milano by STELLA with considerable success. Because of the lack of integrated distribution, the presence of the middleman at the so-called wholesale level is almost indispensable. STELLA has and will continue to go more frequently directly to the farmer for consistently good quality merchandise, thereby eliminating waste and the increased costs of buying at the conventional communal wholesale markets.

It is the objective of STELLA to introduce and implement many U.S. merchandising concepts which are

compatible with Italian taste and tradition. The favorable reaction of the Italian is immediate and is limited only by his meager average spendable income (\$698 in 1964) per year per person, of which 45.7% is spent for food and drink.

STELLA is concentrating its efforts in the relatively rich industrial and agricultural area of the North in the province of Lombardy. It has successfully obtained consumer acceptance and it has incorporated in its concepts and features the Italian version of JEWEL's Ten Commandments. It has been a cardinal rule that the meat, fowl and game must be and is the finest available in Milano. To satisfy the cultured Italian palate for cheese, STELLA features the largest assortment available in Milano, 110 varieties from eight countries of origin. To complement most of these superb cheeses it promotes the sale of 89 types of wine (products of almost every region of Italy), as well as from four other European Countries.

Because of the above mentioned concepts STELLA looks forward to enjoying growth and success as the Italian economy strengthens.

J. D. Maranelli
General Manager

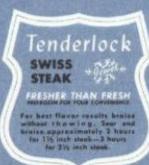
	1965	Plan 1966
Stores—beginning of year	1	4
New stores added	3	3
Stores—end of year	4	7
Customers per week	36,400	
Store area (average square feet)	10,800	
Area served: Milan, Italy and suburbs.		



STELLA
SUPERMARKETS

FOUNDED 1964

RESEARCH
AND
DEVELOPMENT



Planning for Tomorrow's Customers

In the same way that manufacturing and marketing companies have their laboratories and test kitchens, and spend a portion of their time, energy, and money to develop "new products" and experiment with test markets and new selling programs, we draw a parallel with our own retailing "Research and Development."

While the more structured Jewel companies are continuing to work on better ways to improve their services to their customers and develop their own growth patterns, we have a group of smaller experimental activities which are in the laboratory and "test market" stages of their business life. These include:

CHEF'S PANTRIES—a small group of very specialized service outlets geared to care for the needs of high-rise apartment dwellers. One store, in a lakefront Chicago apartment building of 1,000 family units, is actually located three floors below the lobby level and includes a food shop, Chinese food take-out counter, a Frozen Food Cave, an Old Pirate liquor shop, an Osco pharmacy, a "Beauty Corner" cosmetic shop, and a normal complement of gourmet and regular foods. It also has a special gang-plank entrance for people from private yachts anchored near by.

THE WHITE HEN PANTRIES, now three in number, are the beginning of a development of small, convenience stores designed as a delicatessen-type operation in the Chicagoland area. These units are operated by a franchise owner-operator using the merchandising, selling and marketing plans developed by Jewel. Plans are underway to have 19 such operations in business by the end of 1966.

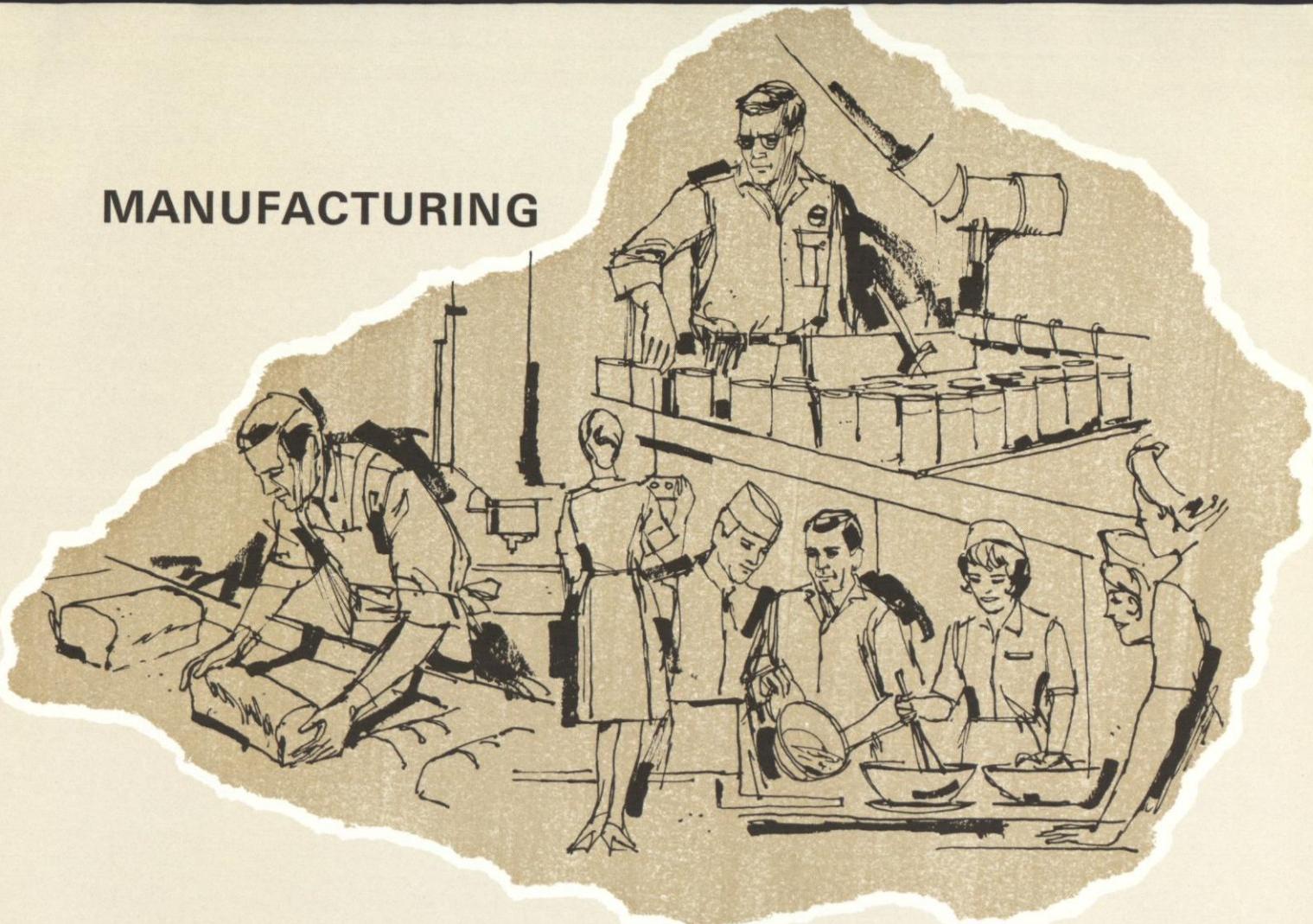
FOOD MARKETERS—"Eating Out" is a growing family activity. The need for quality perishable food supply by restaurants, snack shops, hotels, hospitals, and schools is apparent from our investigations. Food Marketers is a young institutional service organization geared to providing high quality, wholesale perishable food service, including frozen foods, fresh produce, fresh dairy and some bakery service to "Food Service" customers. Expansion plans are presently underway to broaden their lines and develop the nucleus of a much larger institutional wholesale food business specializing in perishables.

WHITE HEN EGG FARM is a joint venture between Jewel and an agricultural operator to supply quality fresh eggs to the Jewel Food Stores in the Chicagoland area. At the present time the Farm is operating with 200,000 laying chickens with plans to further develop this operation during 1966. The exceptional high quality eggs that can be marketed under this plan enhance the quality image of Jewel Food Stores and insure continuity of supply.

TENDERLOCK MEATS is a name given to the experimental activities of Jewel Food Stores Chicagoland meat operations to learn the technical knowledge and marketing ability needed to handle a growing portion of our quality meat business in a frozen manner.

JEWEL'S "CLEAN SHOP", a small self-service laundry and dry cleaner unit, will undergo expansion after two years of a pilot model operation next to one of our large stores. Plans are underway to open 5 additional units during 1966 to take advantage of the method of profitable operation which has been developed on the pilot model.

MANUFACTURING



Shortly after Messrs. Ross and Skiff founded the Jewel Tea Company in 1899, it was engaged in manufacturing activities. The founders were prompted by a desire to give their customers the finest quality and best value in coffee; and thus immediately began to blend and roast their own coffee. The same principles that guided our founders in their decision continue to be used by us in our approach to manufacturing operations in every Jewel Company.

Operating our own manufacturing plants has made it possible to give our customers an extra bonus in quality and value. We are constantly adding new products to broaden each line and give our customers the widest possible selection, with an emphasis on convenience, ease of preparation and ready-to-serve food items. Typical of this are new concepts in presenting pastry products in our pastry shops where fine quality is sold fresh-frozen. We have established a reputation for fine quality products sold under the name of each of our Companies. This has encouraged us to consider other manufacturing activities.

- A cheese-packaging plant started operations in Melrose Park in the fall of 1965.
- In 1966 we will build and operate a potato chip plant in Melrose Park.
- We have also decided to build a fluid-milk plant in Melrose Park. This plant will serve both Jewel and Eisner Food Stores and will utilize the very latest equipment for the most efficient process-

ing, packaging and handling of milk. Methods of automating store orders selection and loading are being studied to assure us of the most efficient techniques for the handling of the finished product. Plant operations are expected to begin some time in 1967.

J. Radov
Vice President,
Corporate Manufacturing Planning

Company	Plant	Location	Sq. Ft. Floor Space
Jewel Food Stores	Bakery Cheese & Salad Kitchen	Melrose Park, Ill.	172,600
Home Service Routes	Coffee Roasting Instant Coffee Preserves Aerosols Prepared Mixes, etc.	Melrose Park, Ill.	29,000
Brigham's	Coffee Roasting Instant Coffee Preserves Aerosols Prepared Mixes, etc.	Barrington, Ill.	200,800
Star Markets	Bakery Ice Cream & Candy	Allston, Mass. Cambridge, Mass.	58,000 61,000
Eisner	Cheese & Salad Kitchen	Watertown, Mass.	10,200
	Bakery Bakery	Champaign, Ill. Springfield, Ill.	14,000 16,000
TOTAL			561,600



Real Estate Corporations...A Profitable Investment

Jewel differs from most multi-store operators in the extent to which it is an investor in and developer of real estate. This is primarily the result of the development in 1957 of its affiliated real estate corporation plan for ownership and financing of retail store properties. Under this plan, when a store location is found and the owner of the property is willing to sell at a price we are willing to pay, Jewel purchases the land and constructs the store building and parking facilities. It then creates a real estate corporation to which the property is sold for the full amount of Jewel's investment in land and improvements. A net lease is executed between Jewel and the real estate corporation, which then borrows the funds needed to pay the purchase price to Jewel.

These corporations now have consolidated total assets of \$40,839,295 and accumulated earnings from operations as affiliates of \$2,468,000. In 1965 alone, consolidated net earnings amounted to \$675,530 or 11 cents per share of Jewel stock. Additional information about this plan is included on page 22 of the notes to the financial statements.

There were 100 affiliated real estate corporations as of the end of the 1965 fiscal year. The properties owned by these corporations provide facilities for 95 food stores, 21 drug stores or departments in combination food-drug stores, 5 Brigham snack shops, 5 Turn-Style self-service department stores, 3 distribution warehouses and 40 stores and service establishments rented to others. Thus, the development of these properties has been an important factor in providing facilities for the various operating departments of Jewel and its subsidiaries. Also, where more land has been available than was needed for our own facilities, we have developed small shopping centers with outside tenants, helping to carry the cost of the project and providing additional merchandising strength to the location for the benefit of our stores.

In developing our real estate corporation plan, three primary objectives have been kept in mind:

1. Avoid large investments of equity capital in retail store locations.

2. Preserve the long-term property values which are being created largely through Jewel's rent payments.
3. Maintain flexibility to discontinue operations if a store should become unprofitable.

Our plan of setting up an affiliated real estate corporation to own each separate property is designed to attain all of these objectives.

Regardless of whether we lease properties from outside landlords or from Jewel real estate affiliates, the principal objective is always to secure good store locations and we remain willing to take whatever route will best accomplish this objective. We are convinced, however, that our real estate activities not only contribute directly to consolidated net earnings but also have enabled us to secure many profitable new stores which otherwise would have been unavailable.

R. D. Sturtevant
Vice President,
Corporate Real Estate Planning

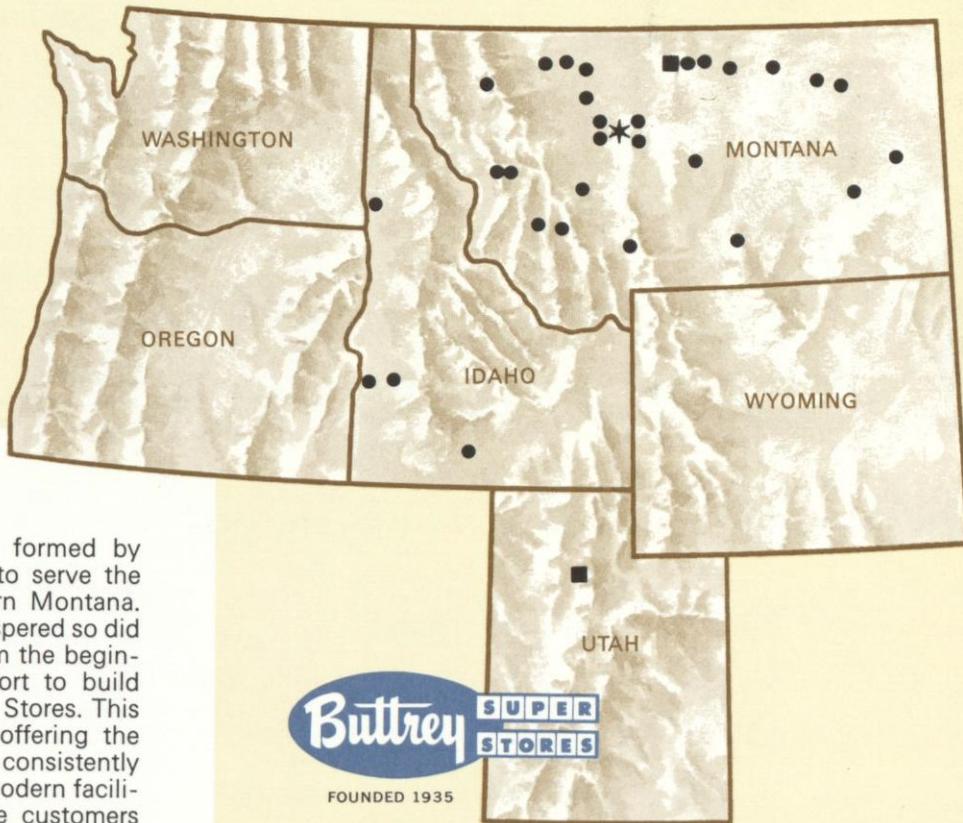
Fiscal Year	Number of New Corporations ¹	Consolidated Net Earnings
1957	7	\$ 30,000
1958	22	64,000
1959	13	122,000
1960	11	155,000
1961	8	196,000
1962	8	259,000
1963	11	405,000
1964	9	562,000
1965	11	675,000
Totals	100	2,468,000
Earnings transferred from subsidiaries		575,000 ²
Jewel's share of real estate corporation earnings		\$3,043,000

(1) Listed by years in accordance with store opening dates.

(2) Certain subsidiaries of Star Market Co. were changed into affiliated corporations and had accumulated earnings which are not included as earnings of affiliates in the yearly figures.

BUTTREY*

In the Great Northwest . . .



In 1896, a mercantile company was formed by Frank A. Buttrey and his wife, Jane, to serve the needs of the mining camps in southern Montana. As the Intermountain area grew and prospered so did the mercantile business of Buttrey. From the beginning there has been a continuing effort to build "customer confidence" in Buttrey Food Stores. This "customer confidence" is a result of offering the finest selection of quality merchandise, consistently priced, displayed and sold in the most modern facilities, with the friendly, personal service customers have a right to expect. Buttrey's personnel continually strive to better strengthen the "customer confidence".

Until 1957, Buttrey Food Stores were retailing food items only. Since then, most new stores opened have had substantial general merchandise departments combined with the food departments. Buttrey has small stores located in the rural areas selling primarily food, and also the giant food and general merchandise combination stores located in the urban centers of the Northwest. In this era of "one stop" shopping, it is believed that these large combination stores best serve the consumer demands in the urban area. The methods of best bringing this complete selection of merchandise to the rural areas are now under consideration.

At the present time Buttrey operates 29 retail outlets located in 25 cities in Montana and Idaho. Sixteen of these have general merchandise departments. Included in the majority of Buttrey stores are on-premise bakeries. Of the 29 outlets, 15 are located in shopping centers; the rest are free-standing stores with suitable parking areas.

Rilling S. Williams
President



FOUNDED 1935

● Retail Stores

★ Distribution Center & General Office

■ Service Centers

Corporate Stores 29

Store area (average square feet) 20,817



*The merger of Buttrey and Jewel is subject to approval of Buttrey Foods stockholders at a special meeting on June 13, 1966 and Jewel shareowners at their annual meeting on June 15, 1966.

Consolidated Balance Sheet

(Both years include the net earnings of real estate affiliates)

JEWEL TEA CO., INC.

ASSETS

	<i>January 29, 1966</i>	<i>January 30, 1965</i>
Current Assets:		
Cash	\$ 15,203,309	\$ 22,190,990
Marketable securities and certificates of deposit	20,535,950	15,804,426
Accounts receivable, less allowances	19,303,829	16,128,299
Inventories, at lower of first-in, first-out cost or market	72,177,432	62,692,475
Temporary investment in retail store properties	2,698,643	8,003,501
Prepaid expenses and supplies	<u>3,079,011</u>	<u>2,730,092</u>
Total current assets	132,998,174	127,549,783
 Deferred Charge—		
Premiums advanced to customers	1,564,905	1,670,277
 Other Investments	9,553,933	7,852,981
 Property, Plant and Equipment (at cost):		
Buildings	23,102,514	24,955,872
Equipment and leasehold improvements	<u>114,912,275</u>	<u>103,120,380</u>
	138,014,789	128,076,252
Less allowance for depreciation and amortization	<u>63,778,105</u>	<u>58,042,375</u>
	74,236,684	70,033,877
Land	4,818,122	4,520,183
Total property, plant and equipment	79,054,806	74,554,060
 Goodwill	1	1
	<u>\$223,171,819</u>	<u>\$211,627,102</u>

LIABILITIES

	<i>January 29, 1966</i>	<i>January 30, 1965</i>
Current Liabilities:		
Accounts payable and accrued expenses.....	\$ 38,567,339	\$ 35,466,706
Dividends payable.....	1,922,259	1,716,631
Accrued federal, state and local taxes.....	12,778,084	12,301,212
Accrued payrolls and profit sharing.....	11,090,404	9,869,424
Long-term indebtedness, due within one year.....	3,125,614	3,101,179
Total current liabilities.....	67,483,700	62,455,152
Long-Term Indebtedness, due after one year.....	30,811,112	33,227,818
Deferred Federal Income Taxes.....	8,350,614	6,984,349
Stockholders' Investment:		
Preferred stock—3¾% cumulative \$100 par value—authorized and issued 51,000 shares.....	5,100,000	5,100,000
Common stock—\$1 par value—authorized 7,500,000 shares, issued 6,109,931 shares at January 29, 1966.....	37,614,226	35,094,782
Accumulated earnings—reserved for self-insured losses and general contingencies.....	1,250,000	1,250,000
Accumulated earnings—unappropriated.....	72,876,514	67,687,313
Treasury stock at cost.....	(314,347)	(172,312)
Total stockholders' investment.....	116,526,393	108,959,783
	<u>\$223,171,819</u>	<u>\$211,627,102</u>

See accompanying notes to consolidated financial statements.

Consolidated Income Account
AND ACCUMULATED EARNINGS—UNAPPROPRIATED
(Both years include the net earnings of real estate affiliates.)

JEWEL TEA CO., INC.

	52 Weeks Ended January 29, 1966	52 Weeks Ended January 30, 1965
Sales and Revenues:		
Food and related merchandise—retail	\$687,112,496	\$627,344,299
General merchandise—retail	174,349,205	154,490,441
Wholesale sales	<u>11,767,586</u>	8,560,300
Total sales	873,229,287	790,395,040
Interest income	777,941	584,545
Total sales and revenues	<u>874,007,228</u>	<u>790,979,585</u>
Cost of Doing Business, including depreciation and amortization of \$10,302,526 in fiscal 1965 and \$9,337,011 in fiscal 1964:		
Cost of goods sold	682,484,491	620,209,962
Selling, general and administrative expense	162,963,225	144,549,904
Provision for doubtful accounts	1,598,494	1,307,979
Interest on indebtedness	<u>1,618,707</u>	1,683,383
	848,664,917	<u>767,751,228</u>
Earnings Before Federal Income Taxes and Net Earnings of Real Estate Affiliates	25,342,311	23,228,357
Provision for Federal Income Taxes	<u>11,047,000</u>	<u>10,241,000</u>
	14,295,311	12,987,357
Net Earnings of Real Estate Affiliates (after deduction of \$275,000 in fiscal 1965 and \$200,000 in fiscal 1964 for federal income taxes)	<u>675,530</u>	<u>562,817</u>
Net Earnings for the Year	14,970,841	13,550,174
Accumulated Earnings—unappropriated, beginning of year:		
Jewel	65,643,174	59,434,171
Real estate affiliates	1,786,674	1,231,032
Food Marketers, Inc.	<u>257,465</u>	156,678
	82,658,154	<u>74,372,055</u>
Deduct:		
Cash dividends declared:		
Jewel preferred stock	179,688	184,456
Jewel common stock	7,121,811	6,493,809
Transactions in treasury stock and stock of subsidiaries	446,715	6,477
Transfer of \$1 per share to common stock for 3-for-2 stock split	<u>2,033,426</u>	—
	9,781,640	<u>6,684,742</u>
Accumulated Earnings—unappropriated, end of year	<u>\$ 72,876,514</u>	<u>\$ 67,687,313</u>

See accompanying notes to consolidated financial statements.

Consolidated Source and Use of Funds

(Both years include the net earnings of real estate affiliates.)

Source of Funds:

	52 Weeks Ended January 29, 1966	52 Weeks Ended January 30, 1965
Net earnings (including real estate affiliates).....	\$14,970,841	\$13,550,174
Depreciation and amortization.....	10,302,526	9,337,011
Increase in deferred federal income taxes.....	<u>1,366,265</u>	<u>974,588</u>
	26,639,632	23,861,773
Sale of common stock.....	560,408	609,732
Increase in payables and accruals.....	<u>5,004,113</u>	<u>7,415,449</u>
	<u>\$32,204,153</u>	<u>\$31,886,954</u>

Use of Funds:

Dividends to owners of the business.....	\$ 7,301,499	\$ 6,678,265
Transactions in treasury stock.....	663,140	173,913
New property, plant and equipment (net).....	14,803,272	17,628,341
Decrease in long-term debt.....	2,392,271	2,710,730
Decrease in cash and marketable securities.....	(2,256,157)	(22,091)
Increase in accounts receivable.....	3,175,530	710,348
Increase (decrease) in inventories.....	9,484,957	(272,894)
Increase (decrease) in temporary investment in retail properties.....	(5,304,858)	2,062,223
Increase in other investments:		
Real estate affiliates.....	1,337,998	660,142
Foreign and other.....	362,954	1,549,874
All other (net).....	<u>243,547</u>	<u>8,103</u>
	<u>\$32,204,153</u>	<u>\$31,886,954</u>

Accountants' Report

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
JEWEL TEA CO., INC.

We have examined the accompanying consolidated balance sheet of Jewel Tea Co., Inc. and subsidiaries as of January 29, 1966, and the related statements of income and accumulated earnings and source and use of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Jewel Tea Co., Inc. leases a number of its properties from affiliated real estate companies. Opinion Number 5 of the Accounting Principles Board of the American Institute of Certified Public Accountants contemplates that such properties (leased since September, 1964) and the related obligations be included in the consolidated balance sheet of Jewel Tea Co., Inc. Instead, this information has been included in the

summarized data presented in a note to the consolidated financial statements. This difference in the treatment of leases has no effect on consolidated net earnings.

In our opinion, except for the method of presenting lease data as explained in the preceding paragraph, the financial statements referred to above present fairly the consolidated financial position of Jewel Tea Co., Inc. and subsidiaries at January 29, 1966, the consolidated results of their operations, and the source and use of funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, restated to include the earnings of affiliated real estate corporations.

March 16, 1966

Notes To Consolidated Financial Statements

OTHER INVESTMENTS

Real Estate Affiliates

Jewel leases a number of operating properties from 100 affiliated real estate corporations whose common stock is owned by the Jewel T Foundation. Jewel owns the preferred stock having conversion rights which, if exercised, would result in Jewel owning more than 99% of the common stock of these real estate corporations. Jewel's investment in this stock, formerly carried at cost, has been increased by the amount of accumulated earnings attributable to Jewel's investment, assuming conversion, and net earnings for fiscal 1965 and 1964 and accumulated earnings as of the beginning of 1964 have been restated accordingly.

Each real estate corporation has obtained debt financing generally for a twenty-year term at rates varying from 4½% to 5½% with provisions for prepayment after five years. Interest on this indebtedness amounted to \$1,536,000 for 1965. Jewel has executed a net lease with each corporation at a rental sufficient to repay the amounts borrowed plus interest over the term of the lease and the leases have been assigned to secure the debt.

Aggregate annual maturities of long-term debt of the real estate corporations are as follows:

1967—\$1,587,000
1968—\$1,648,000
1969—\$1,710,000
1970—\$1,776,000
and the balance through 1989.

The following condensed balance sheets set forth the combination of the accounts of Jewel with those of the real estate affiliates as they would appear if Jewel's preferred stockholdings were converted into common stock interests:

<i>Jewel Tea Co., Inc. and Subsidiary Companies Jan. 29, 1966</i>	<i>Real Estate Affil- iates Jan. 1, 1966</i>	<i>Com- bined</i>
ASSETS		
(In thousands of dollars)		
Current assets:		
Cash, marketable securities and certificates of deposit.....	\$ 35,739	\$ 2,162
Other current assets.....	97,259	166
	132,998	2,328
Deferred charge.....	1,565	1,565
Other investments.....	9,554	5,474
Property, plant and equipment, at cost.....	142,833	42,174
Less allowance for depreciation and amortization.....	(63,778)	(3,663)
	79,055	38,511
	<u>\$223,172</u>	<u>\$ 40,839</u>
		<u>\$258,196</u>
LIABILITIES		
Current liabilities:		
Long-term indebtedness, due within one year.....	\$ 3,126	\$ 1,505
Other current liabilities.....	64,358	2,077
	67,484	3,582
Long-term indebtedness, due after one year	30,811	32,421
Deferred federal income taxes.....	8,351	744
Jewel T Foundation equity.....		12
Stockholders' investment:		
Preferred stock issued.....	5,100	1,037
Common stock issued:		
Jewel.....	37,614	37,614
Real estate corporations (after elimination of intra-group holdings)....		2
Accumulated earnings.....	74,126	3,053
Treasury stock at cost.....	(314)	(314)
	116,526	4,092
	<u>\$223,172</u>	<u>\$ 40,839</u>
		<u>\$258,196</u>

Foreign

The Company's investment and ownership interest in foreign operations includes the following:

<i>Company</i>	<i>Location</i>	<i>% Stock Interest</i>	<i>Cost</i>
Supermarchés GB.....	Belgium	36.00%	\$3,143,499
Super Bazars	Belgium	18.75	1,309,951
Società Italo Americana Supermarkets...	Italy	49.00	431,972

LONG-TERM INDEBTEDNESS

Long-term indebtedness at January 29, 1966, was as follows:

	<i>Rate</i>	<i>Total Outstanding</i>	<i>Due Within One Year</i>	<i>Final Maturity</i>
Bank-administered trusts.....	4.5%	\$20,000,000	\$ —	1987
Banks and insurance companies.....	2.85-5.00	10,951,900	2,974,400	1966-1978
Mortgage notes....	4.50-5.125	2,984,826	151,214	1970-1983

Under terms of the note agreements \$35,700,000 of accumulated earnings are not restricted for the payment of cash dividends on common stock.

PREFERRED STOCK

Under the sinking fund provisions relating to the preferred stock, the Company must acquire annually on or before each June 30 at least 1,500 shares. As of January 29, 1966, the Company had retired the required shares through June 30, 1965, and held in the treasury 3,363 shares at a cost of \$309,043 covering the sinking fund requirements into 1968.

COMMON STOCK

Common stock account transactions of the Company during the year were as follows:

Balance, January 30, 1965, restated to include	
Food Marketers, Inc.....	\$35,094,782
Transactions in treasury stock.....	(74,390)
Issuances under:	
Employee stock purchase plan (8,807 shares)*.....	317,537
Stock option plan (9,184 shares)*.....	242,871
Transfer of \$1 per share from accumulated earnings for three-for-two stock split.....	2,033,426
Balance, January 29, 1966.....	<u>\$37,614,226</u>

*Adjusted for three-for-two stock split.

As of January 29, 1966, there were 135 common shares in the treasury carried at a cost of \$5,304.

At January 29, 1966, there were 805,067 shares of

common stock reserved, of which 436,080 were for a proposed pooling of interest with Buttrey Foods, Inc. (which will be submitted to the shareholders for their approval on June 15, 1966), 72,711 shares were for employee stock purchase plan purchases, 126,000 shares were for issuance to profit-sharing trusts and 170,276 shares were for stock options described more fully below:

	<i>Reserved</i>	<i>Granted</i>	<i>Available</i>
Balance, January 30, 1965,			
adjusted for 3-for-2 stock split...	145,297	126,547	18,750
Cancelled.....	(18,794)	(44)	(18,750)
Reserved.....	52,957		52,957
Granted.....		16,250	(16,250)
Exercised.....	(9,184)	(9,184)	
Balance, January 29, 1966.....	<u>170,276</u>	<u>133,569</u>	<u>36,707</u>
Options exercisable at January 29, 1966.....		62,834	

Outstanding options as to 4,119 shares (converted from options to buy Star Market Co. shares) were granted at prices ranging from \$12.39 to \$29.69 per share; these options vary as to term and conditions, but all expire by 1970. Other outstanding options were granted at prices ranging from \$27.87 to \$40.69 per share, representing 95% or more of the market price on the date of grant, become exercisable in equal installments over a four-year period and expire from five to ten years from the date of grant.

LEASE COMMITMENTS

Nearly all retail stores and the field office-warehouses for the Home Service Routes are under lease. Rentals for leased properties were \$12,417,000 in 1965 and \$11,694,000 in 1964 including \$3,450,000 and \$2,939,000, respectively, paid to affiliated real estate corporations.

As of January 29, 1966, real estate leases call for the payment of approximately \$12,586,000 for fiscal 1966 exclusive of rentals based on sales required by some leases. Of this annual amount, approximately 23% will have expired by the end of 5 years, 39% by the end of 10 years, 72% by the end of 15 years and 97% by the end of 20 years.

Officers

JO H. ARMSTRONG
*Vice President, General Manager,
Eisner Stores*

JOHN N. BALCH
Controller

HARRY G. BECKNER
*Vice President, General Manager,
Jewel Food Stores*

JOHN A. BREWER
*Vice President, Meat Operations,
Jewel Food Stores*

WESTON R. CHRISTOPHERSON
*Vice President, General Manager, Home
Shopping Service and Executive
Vice President, General Manager,
Osco Drug, Inc.*

GEORGE L. CLEMENTS
*Chairman, Board of Directors
and Chief Executive Officer*

EDWARD J. DAVIS
Assistant Treasurer

GRANT C. GENTRY
Secretary and General Counsel

BERT H. HAMBLETON
*Vice President, Grocery Merchandising,
Jewel Food Stores*

GEORGE T. HILDEN
*Vice President, General Merchandise
Services, and President,
Osco Drug, Inc.*

RONALD L. HILEMAN
*Vice President, Perishables Operations,
Jewel Food Stores*

CLIFFORD R. JOHNSON
*Vice President, Real Estate and
Construction, Chicagoland Stores*

EDWARD L. JOHNSON
*Vice President, Sales, Home Shopping
Service*

HERMAN T. LANDON
*Vice President, Supply, Home Shopping
Service*

DARRELL L. LEWIS
*Vice President, General Manager,
Turn-Style West Stores*

FRANKLIN J. LUNDING
*Chairman, Finance Committee
and Chief Financial Officer*

WALTER E. MEYER
Assistant Controller

JOHN M. MUGAR
*President,
Star Market Co.*

STEPHEN P. MUGAR
*Chairman, Board of Directors,
Star Market Co.*

DONALD S. PERKINS
President

H. ROBERT POWELL
Assistant Treasurer

JOSEPH RADOV
*Vice President, Corporate
Manufacturing Planning*

HOWARD R. RASMUSSEN
*Executive Vice President,
Chicagoland Stores*

L. JACK SKYLES
Vice President, Chicago Osco Drug Stores

LEE D. SMITH
*Vice President, Administrative
Services, Chicagoland Stores*

FRANK L. SPREYER
*Vice President, Manufacturing,
Warehousing & Transportation,
Jewel Food Stores*

PAUL STRATTON
*Chairman, Board of Directors,
Osco Drug, Inc.*

RICHARD D. STURTEVANT
Vice President, Corporate Real Estate Planning

WEIR C. SWANSON
*Vice President, Personnel and
Public Affairs*

EDWARD T. VORBECK
*Assistant Secretary and Associate
General Counsel*

HOWARD O. WAGNER
*Vice President, Administration, and
Treasurer*

FRED A. WOERTHWEIN
*Vice President, Grocery Operations,
Jewel Food Stores*

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. on Wednesday, June 15, 1966 at the Sheraton-Boston Hotel, Boston, Massachusetts

TRANSFER AGENT

Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015

REGISTRAR

Bankers Trust Company, 16 Wall Street, New York, New York 10015

STOCK LISTING

New York Stock Exchange

CORPORATE OFFICE

135 South LaSalle Street, Chicago, Illinois 60603

EXECUTIVE OFFICE

1955 West North Avenue, Melrose Park, Illinois 60160

This report is submitted to the stockholders of the Corporation for their information and is not intended to be used in connection with the sale of or offer to sell any securities, nor is it intended to be information to be included in a prospectus within the meaning of the provisions of the Federal Securities Act of 1933, as amended.

Directors

JAMES L. ALLEN

Chairman

Booz • Allen & Hamilton, Inc.

WESTON R. CHRISTOPHERSON

Vice President, Home Shopping Service

Exec. Vice President, Osco Drug, Inc.

GEORGE L. CLEMENTS

Chairman, Board of Directors and

Chief Executive Officer

STEPHEN M. DuBRUL, JR.

Partner

Lehman Brothers

JOSEPH M. FRIEDLANDER

*Chairman, First National Bank and
Trust Co., Barrington, Illinois*

WILLIAM A. GERBOSI

Independent Business Consultant

A. VERNON JANNOTTA

Independent Business Consultant

FRANKLIN J. LUNDING

*Chairman, Finance Committee
and Chief Financial Officer*

EDWARD H. McDERMOTT

Senior Partner

McDermott, Will & Emery

STANLEY R. MILLER

Partner

Goldman, Sachs & Co.

JOHN M. MUGAR

President

Star Market Co.

STEPHEN P. MUGAR

Chairman, Board of Directors

Star Market Co.

DONALD S. PERKINS

President

HOWARD R. RASMUSSEN

Executive Vice President

Chicagoland Stores

FRANK L. SPREYER

Vice President

Jewel Food Stores

PAUL STRATTON

Chairman, Board of Directors

Osco Drug, Inc.

HOWARD O. WAGNER

Vice President and Treasurer

COMMITTEES OF THE BOARD

EXECUTIVE

George L. Clements*

Franklin J. Lunding

Donald S. Perkins

Stephen P. Mugar**

Edward H. McDermott**

FINANCE

Franklin J. Lunding*

George L. Clements

Howard O. Wagner

Donald S. Perkins**

Edward H. McDermott**

SALARIES AND PROFIT SHARING

Franklin J. Lunding*

James L. Allen

Edward H. McDermott

George L. Clements**

William A. Gerbosi**

STOCK OPTIONS

James L. Allen*

A. Vernon Jannotta

Stanley R. Miller

Edward H. McDermott**

Stephen M. DuBrul, Jr.**

AUDITS

Edward H. McDermott*

William A. Gerbosi

Howard O. Wagner

James L. Allen**

A. Vernon Jannotta**

*Committee Chairman

**Alternates

cial Summary

1964 1963 1962† 1961 1960 1959 1958† 1957 1956

(Total dollars in thousands except per share figures.)

\$ 790,980	\$ 752,499	\$ 713,057	\$ 642,629	\$ 601,978	\$ 573,604	\$ 538,209	\$ 497,535	\$ 445,714
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\$ 13,550	\$ 11,602	\$ 12,153	\$ 11,495	\$ 11,517	\$ 10,824	\$ 9,434	\$ 8,026	\$ 7,334
2.19	1.88	1.97	1.87	1.92	1.86	1.64	1.42	1.31
1.07	1.07	1.07	1.00	.93	.80	.67	.65	.65

\$ 6,872	\$ 4,967	\$ 5,886	\$ 5,860	\$ 6,435	\$ 6,634	\$ 5,959	\$ 4,773	\$ 4,299
9,337	8,632	7,886	7,225	6,738	6,247	5,342	4,858	3,920

\$ 17,628	\$ 13,165	\$ 15,321	\$ 10,340	\$ 10,499	\$ 9,119	\$ 13,560	\$ 9,043	\$ 9,668
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\$ 65,095	\$ 70,091	\$ 48,118	\$ 51,332	\$ 49,969	\$ 45,874	\$ 39,701	\$ 36,193	\$ 32,630
211,627	198,640	173,811	163,938	154,204	130,162	122,290	105,922	99,367

\$ 33,228	\$ 35,974	\$ 15,234	\$ 18,459	\$ 21,133	\$ 19,582	\$ 20,338	\$ 16,161	\$ 14,339
4,913	5,095	5,374	5,537	5,691	5,748	5,803	5,832	5,904
104,047	96,557	91,445	83,645	74,996	66,296	56,988	50,058	45,123
17.04	15.88	15.05	13.84	12.72	11.63	10.15	9.07	8.33

6,104,854	6,081,451	6,076,110	6,043,431	5,898,110	5,701,749	5,613,007	5,516,959	5,415,036
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*In May, 1962, the fiscal year of the Company was changed to the Saturday nearest January 31 from the Saturday nearest December 31.

†53-week year; other years 52 weeks.

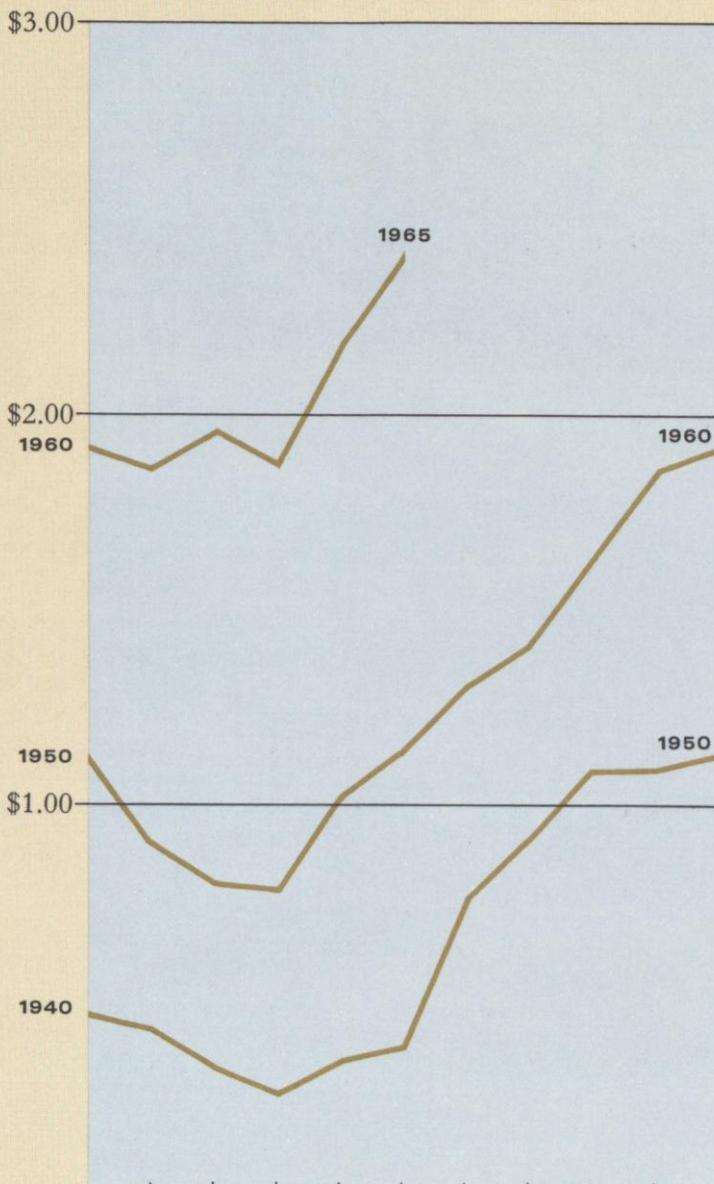
**Adjusted for stock splits and stock dividends.

JEWEL TEA CO., INC.

Consolidated Ten Year Finan

(All years include the net earnings of real estate affiliates.)

GROWTH IN EARNINGS PER SHARE BY DECADES



For The Year*

	1965
Total sales and revenues.....	\$ 874,007
Earnings:	
Net for the year.....	\$ 14,971
Earnings per common share**.....	2.42
Dividends per common share**.....	1.13
Retained earnings.....	\$ 7,669
Depreciation.....	10,303
New property, plant and equipment (net)	\$ 14,803
At The Year End*	
Net working capital.....	\$ 65,514
Total assets.....	223,172
Long-term debt.....	\$ 30,811
Preferred stock.....	4,704
Common stockholders' equity.....	111,763
Equity per common share**.....	18.29
Number of common shares outstanding**	6,109,796

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